MCKAY SECURITIES PLC
PRELIMINARY RESULTS
6th June 2008

The Directors of McKay Securities PLC announce the results of the Group for the year ended 31st March 2008.

FINANCIAL HIGHLIGHTS

- **Final dividend up 29.7% to 9.6p per share (2007 – 7.4 pence per share), making a total dividend for the year of 14.3 pence per share (2007 – 11.0 pence per share): an increase of 30%**

- **Continued growth in recurring profits and earnings**

    - Adjusted profit before tax up 16.1% to £8.38 million (2007 - £7.22 million)

    - Diluted adjusted earnings per share up 24.3% to 18.08 pence (2007 – 14.55 pence)

    - Net rental income from investment properties income up 11.8% to £18.43 million (2007 - £16.48 million)

- **Unadjusted results dominated by valuation decrease**

    - Portfolio valuation at 31st March 2008 of £316.52 million, resulting in a 12.3% (£44.54 million) deficit against book value at that date (2007 - £43.55 surplus)

    - Loss before tax, including valuation deficit, of £43.40 million (2007 – profit £57.46 million) with loss per share of (94.76) pence (2007 – earnings 162.26 pence)

    - Net asset value per share reduced to 408 pence, down 20.8%

- **Strong balance sheet and resilient capital structure**

    - Gearing to shareholders funds of 66.0% (2007 – 46.9%)

    - £35 million increase in banking facilities to £185 million, to pursue future opportunities, with 7.7 years average weighted maturity

    - £140 million of debt protected by interest rate hedging instruments (2007 - £110 million)

    - Weighted average cost of borrowing of 5.4% (2007 – 5.8%)

David Thomas, Chairman, commented:

After a sustained period of increasing values and exceptional returns, the commercial property market as a whole has experienced a swift reduction in asset valuations, primarily due to tighter credit conditions and a reassessment of its risk profile. This shift to higher yields had been anticipated by the Group in the actions we were taking, and I am therefore pleased to be able to report on a strong financial position as well as an increase in adjusted profit before tax.

The cyclical nature of property values has highlighted the importance of seeking out acquisitions with income growth potential and matching them with sustainable levels of debt. I am confident that the Group is appropriately structured to continue to take advantage of the opportunities that arise in such testing times.

For further information please contact:

McKay Securities PLC – 0118 950 2333

Simon Perkins (Managing Director)
Alan Childs (Finance Director)

www.mckaysecurities.plc.uk

Details of the programme for the payment of the final dividend on the Ordinary Shares is as follows:

Ex dividend date	18th June 2008
Record Date for the final dividend	20th June 2008
Report and Financial Statements dispatched to Shareholders with Notice of AGM	26th June 2008
Annual General Meeting to be held at 12 noon at The Royal Thames Yacht Club, 60 Knightsbridge, London SW1	22nd July 2008
Final dividend paid	6th August 2008

A final dividend of 9.6 pence per share is recommended by the Board making a total dividend for the year of 14.3 pence per share (2007 – 11.0 pence per share) Of the 9.6 pence per share, 6.95 pence will be paid as a PID, making the total PID for the year 10.45 pence per share.

CHAIRMAN'S STATEMENT

After a sustained period of increasing values and exceptional returns, the commercial property market as a whole has experienced a swift reduction in asset valuations, primarily due to tighter credit conditions and a reassessment of its risk profile. In the summer of 2007, initial market yields on commercial property investments reached a level lower than the cost of both the five year swap rate and five year gilts; this coincided with the crisis in financial and capital markets and a marked slow down from record bank lending to the sector. The resulting fall in commercial property and corporate values was the most rapid experienced in recent times. This shift to higher yields had been anticipated by the Group in the actions we were taking, and I am therefore pleased to be able to report on a strong financial position as well as an increase in adjusted profit before tax.

Adjusted profit before tax, which excludes movements in the value of the Group's property portfolio and interest rate hedging instruments, profit on the sale of investment properties and surrender premiums increased by £1.16 million (16.1%) to £8.38 million (2007 - £7.22 million). Earnings per share, adjusted on the same basis, increased by 24.4% to 18.33 pence (2007 – 14.73 pence), benefiting from the tax savings arising from the Group's first year as a REIT. With inclusion of the adjusted items referred to above, there was a loss before tax of £43.40 million compared with a profit of £57.46 million last year, and a loss per share of (94.76) pence (2007 – earnings 162.26 pence). Net asset value at the year end was 408 pence per share (2007 – 515 pence). The year on year differences above, are primarily due to a 12.3% (£44.54 million) reduction in the book value of the Group's property portfolio, valued at £316.52 million at 31st March 2008. This compares with a valuation gain last year of £43.55 million; in both cases these are unrealised movements in value. Realised profit on the sale of investment properties over book value was £0.31 million (2007 - £3.59 million).

After taking into account these factors, the Board is pleased to recommend a final dividend of 9.6 pence per share, up 29.7% on last years final dividend, payable on 6th August 2008 to those on the register at the close of business on 20th June 2008. This takes the total dividend for the year to 14.3 pence (2007 – 11 pence), representing an increase of 30% over 2007. This increase accords with the Board's stated intention to set a new level of dividend to benefit from the annual tax savings arising from its conversion to a REIT on 1st April 2007.

Despite the fall in property values over this last year, the Group's strategy of generating additional value and income growth from the refurbishment, development and management of high quality buildings in the resilient regions of London and South East England has resulted in a 57.1% (£115.12 million) increase in portfolio value over the last five years. This has been achieved whilst retaining a modest increase in the level of gearing to shareholders' funds which at the year end was 66.0% (2007 – 46.9%).

To enable the Group to benefit from opportunities likely to arise in a falling market, loan facilities were increased at the end of last year by £35 million to £185 million, with competitive margins maintained and the average term of the facilities on a weighted basis extended beyond 7 years. With net debt of £123.28 million at the year end, the Group has a surplus for new acquisitions and projects, with a low cost of debt protected by £140 million (2007 - £110 million) of interest rate hedging instruments.

The Group has always had careful regard to market conditions when considering the implementation of development projects and has avoided significant exposure to an uncertain outlook. In view of the current economic climate, the emphasis during the year has therefore been to continue to acquire income producing properties with future potential and to manage opportunities that exist within the portfolio, whilst adopting a more cautious approach to the implementation of larger schemes.

Our proactive attitude to portfolio management continued to prove successful and good progress was made with the letting of completed projects. A major contributor to the £1.16 million increase in adjusted profit before tax was a £2.04 million (11.8%) gain in gross rental income, which increased to £19.35 million. Of this increase, £1.10 million was generated from new leases and management initiatives, helping reduce the level of void properties to 8.2% of the portfolio's full rental value (2007 – 12%) at the year end which is below the sector average. Lettings of particular note during the year were at Lotus One, Staines, Dacre House, SW1, Pegasus One, Crawley, and Bartley House, Hook, which together with the letting of Lotus Two, Staines since the year end, have a combined contracted rental value of £1.95 million per annum.

The quality of the buildings recently completed has continued to attract robust tenants, and at the year end the ten occupiers with the largest lease commitments accounted for 50.1% of all contracted rents; these were all either government departments or held the top credit rating from the agency used by the Group to assess the risk of default.

Office and industrial acquisitions at Banbury, Weybridge and Maidenhead totalling £19.45 million inclusive of acquisition costs were added to the portfolio during the year. These have already made a useful income contribution which should be improved further with planned refurbishment and management initiatives, and since the year end an additional £8.03 million has been invested in two office buildings at Ancells Business Park, Fleet.

The sale of Dacre House, SW1 and Flat 39 Parkside, SW1, realised net proceeds of £13.50 million. Of this, £12.44 million was in respect of Dacre House, where an excellent price was achieved reflecting a yield to the purchaser of 5.2%. This secured a £6.63 million surplus on cost since acquisition in 1997 which is tax free due to the Group's REIT status. The letting of refurbished office floors had achieved five and ten year lease terms, and with slowing rental growth and five years until rent reviews, the decision was made to sell the property to release funds to re-invest in opportunities with better growth prospects.

Recent major schemes in the development programme were completed prior to the current financial uncertainty, and the letting of Lotus Two in May 2008 leaves minimal void exposure. It was intended to follow these with the redevelopment of 30/32 Lombard Street, EC3, where planning consent was granted in October 2007 for a high quality 58,000 sq ft office scheme, representing a 60.5% gain in net floor space compared with the existing building. However, with increasing supply and doubts over future rents and tenant demand within the City market, the decision has been made to defer the scheme and maintain income in the building until market conditions become more favourable.

Other projects within the existing pipeline include the refurbishment of office floors at Portsoken House, EC3, where lease expiries in December this year will allow works to enhance letting prospects. It is also intended to commence the first phase of refurbishment at the recently acquired Maidenhead property this Autumn.

<u>Board Changes</u>

Michael Hawkes retired from the Board on 31st March 2008 after a period of over 21 years, during which his incisive and astute advice has been invaluable to the growth of the Group. As Chairman of the Remuneration and Nomination Committees he successfully managed the introduction of changes to the remuneration strategy last year and has overseen the restructuring of the Board, which concludes with his retirement. I would like to thank him on behalf of past and present members of the Board for his wise counsel, commitment and support.

Future Prospects

The immediate outlook is one of economic uncertainty, as the longer term impact of the recent banking liquidity crisis in an environment of accelerating inflationary pressures remains to be seen. Until it becomes clearer whether rental values are likely to be significantly affected by an economic downturn, there will be little momentum behind both the sector and property values. Currently there is no change in our tenants' ability to meet their lease commitments and the fall in property values appears to be slowing. The Group's focus on London and South East England, which are the top economic regions in the country, and the portfolio's geographical and sector diversity within these regions should mitigate the risk of further deterioration.

We believe that the greatest relative and absolute returns from commercial property will be generated by resilient, opportunistically managed portfolios, combined with management and development skills and long term finance to generate income. The cyclical nature of property values has highlighted the importance of seeking out acquisitions with income growth potential and matching them with sustainable levels of debt. I am confident that the Group is appropriately structured to continue to take advantage of the opportunities that arise in such testing times.

D.O. Thomas
6th June 2008

Property and Financial Review

Overview

The Company continues to focus on the established and emerging office and industrial markets of London and South East England, with the objective of maximising income and capital growth over the long term through active management and the implementation of refurbishment and development projects. Completed schemes are generally held for growth rather than being traded on and are built to a high standard to enhance rental prospects and to attract prime tenants.

At 31st March 2008 the portfolio consisted of 34 properties totalling 1.32 million sq ft valued at £316.52 million, with an average lot size of £9.31 million. 79.3% of this value was in office properties and taking office and industrial properties together, 61.8% was located in South East England, outside London. Acquisitions are assessed on the potential to add value and our current mix of properties reflects the additional value generated from recent office developments and acquisitions.

The average weighted unexpired lease term of the portfolio at the year end was 8 years, with 68.2% of all contracted rents paid by government tenants or those considered by the rating agency, Dun and Bradstreet, to have a net worth in excess of £15 million and a low or minimal risk of business failure. This combination provides a secure recurring income from the portfolio, thereby underpinning profits.

Market Review

There have been wide variations in the performance of occupier markets across the UK over the year, but in the south east office sector outside London, which accounts for 42.8% of the portfolio by value, demand has remained steady with take up slightly higher than the consistent annual level seen since 2004. Many of the popular south eastern locations have seen rental growth as the take up of Grade A floor space has continued. Although the pipeline of schemes under construction has increased, the supply of better quality buildings is likely to remain constrained.

The rental differential between the best space in London and other markets in the south east continued to increase over the period. However, rental growth slowed in London and in the City rents have begun to fall back.

The Group's industrial holdings are spread across the south east where rental growth was generally limited, although in a number of cases proactive management activity in the portfolio resulted in rental improvements. Overall demand and supply in this sector changed little during the year and rental growth in the short term is likely to remain limited due to an increase in development completions and the removal of void rates exemption.

Valuation

The independent external valuation of the Group's property portfolio as at 31st March 2008 totalled £316.52 million, representing a 12.3% (£44.54 million) reduction in book value, disregarding the SIC15 lease incentive adjustment. On a sector basis, south east offices reduced by 13.3%, London offices by 14.2% and south east industrial property by 10.8%. The Investment Property Databank (IPD) Monthly Index showed a reduction in value for all property for the same period of 15.1%. The fall in values was generally across the portfolio, although reductions in respect of Pegasus Place, Crawley (50,035 sq ft), Corinthian House, Croydon (44,170 sq ft), 5 Acre Estate, Folkestone (60,260 sq ft), Bartley House, Hook (21,705 sq ft), and Lotus Park, Staines (79,135 sq ft) were mitigated by the income gains from new lettings and improved rental values. Disregarding the higher yield expectations applied in the valuation, the portfolio would have increased in value by 4.1% (£13.77 million) on a like for like basis due to management initiatives.

At 31st March 2008 the initial yield from the portfolio at passing rents, after allowing for notional purchasers' costs, was 5.3%, (2007 – 4.3%), increasing to a reversionary yield of 6.9% (2007 – 5.7%). The portfolio's equivalent yield was 6.7% (2007 – 5.6%), being the average income return reflecting the timing of future rental increases.

Portfolio Activity and Income

Net property income from the portfolio for the year increased by £1.95 million (11.8%) to £18.43 million. Gross rents received, before deducting non-recoverable property expenditure, increased by £2.04 million to £19.35 million. The total contracted rent of the Group's portfolio at 31st March 2008, net of ground rents, increased by 9.4% to £20.16 million (2007 - £18.43 million) and full rental value, net of ground rents, increased by 7.6% to £23.18 million (2007 - £21.55 million).

Over the course of the year the total contracted rent in respect of all new open market lettings and lease renewals was £2.42 million, with those at Dacre House, SW1 and Lotus Park, Staines, making significant contributions at rental values ahead of expectations.

The comprehensive refurbishment of Dacre House, which completed at the end of 2006, improved the quality of the office floors and common parts and added additional floor space. The five resulting office floors ranged in size between 1,850 sq ft and 2,800 sq ft, and were marketed at a time when floors of this size were in short supply. All the vacant space was let in the first half of the year at a total contracted rent of £639,000 per annum. Although market conditions were deteriorating, the property sold for £12.70 million, which represented a profit over book value as at 30th September 2007 of £0.19 million and a historical profit of £6.63 million since purchase in 1997. Also sold during the year was the long leasehold interest in Flat 39 Parkside, acquired by the tenant, realising the marriage value from the merger of the interests and a profit over book value at 30th September 2007 of £0.27 million taking the total profit over book value on the sale of investment properties to £0.31 million (2007 - £3.59 million).

Important progress for the Group was made at Lotus Park, Staines, following completion in May 2007 of the major refurbishment work undertaken to Lotus One (15,190 sq ft) and Lotus Two (19,600 sq ft). The buildings were well received by the market and in the first half of the year Lotus One was let on a 10 year lease to Dow Chemical Company Ltd at a contracted rent of £425,180 pa (£28.50 psf). The occupier interest referred to at the half year stage led to a letting of Lotus Two shortly after the end of the financial year at a contracted rent of £607,600pa to Salesforce.com, also on a 10 year lease. The rent achieved represented an improvement to £31.40 psf. This letting leaves the buildings at Lotus Park fully income producing.

Also in Staines, income was maintained at Mallard Court (22,120 sq ft) where leases were due to expire in March 2008. Existing tenants have been retained with the exception of the top floor (5,200 sq ft) where refurbishment work has been completed and marketing is underway.

Works also completed at Corinthian House, Croydon where the 9th and 10th floors and common parts were substantially upgraded, and 12,088 sq ft is now available to let. Croydon had seen encouraging rental growth since the property was acquired in December 2006, and a government decision on the planning applications for the regeneration of the regionally significant Croydon Gateway site opposite the property is expected shortly.

At Pegasus Place, Crawley the ground floor of Pegasus One (4,620 sq ft) was let on a 10 year term with a tenant break clause at the end of the fifth year. This leaves only the first floor (5,330 sq ft) vacant. The ground floor of Bartley House, Hook was also let, and the building is now fully income producing.

Other management activity within the portfolio included the upgrading of the prominent corner retail unit at Portsoken House, EC3. A premium of £101,000 was paid by the outgoing tenant at the end of the last financial year and an increased rent and longer lease term has been achieved with the new tenant. At Folkestone, improvement works and the opening of a large DIY retail outlet between the 3 Acre and 5 Acre Industrial Estates have improved rental values, particularly at the 5 Acre Estate where trade counter users have been prepared to pay significantly higher rents. Improvements to the Oakwood Trade Park, Crawley, and the McKay Trading Estate, Bicester, were also completed which has assisted with lettings and improved rents secured. At Bicester a new rental high has been achieved and works are ongoing to improve Unit 2 (10,280 sq ft) which has underutilised road frontage.

During the first half of the year, securing acquisitions on the open market was difficult as the prices sought offered little potential to add value. However, two acquisitions were made off market; both have been integrated into the portfolio and are making a positive contribution. At Brooklands Industrial Estate, Weybridge, a good quality 62,800 sq ft unit was acquired from Yamaha Motors (UK) Ltd on Sopwith Drive. They leased back the office element, leaving the remaining 38,000 sq ft of warehouse floor space to be let on completion of sub-division works. These have now been completed, and there is good interest in the unit. Also acquired in the first half of the year was the Lower Cherwell Street Industrial Estate, Banbury. The 39,980 sq ft estate which consists of 19 units with future potential for residential or other higher value uses is located within the town centre, close to the railway station. Since acquisition, improvements have led to a 15% increase in rental values and all units are occupied.

The rapid correction in property values between September and December 2007 has lowered price expectations of committed vendors, thus improving prospects for acquisitions with growth potential. With the benefit of secured finance and falling prices, opportunities to invest in refurbishment and development prospects are likely to be more realistically priced once vendors accept the reality of higher yields and the increasing cost of such projects. This was the case at the end of the year with the acquisition of The Switchback located to the north of Maidenhead Town Centre, taking total funds invested in acquisitions over the year to £19.45 million. The property consists of six two storey office units in three blocks totalling 37,380 sq ft, constructed in the early 1980's with generous car parking. The units will be refurbished on a rolling basis as leases expire over the next five years and, with landscape and signage improvements, will be rebranded and marketed to increase rents. After the year end, a further acquisition was made of the freehold of two good quality office buildings with excellent car parking totalling 21,155 sq ft at a price of £7.6 million before costs (initial yield 7.3%), at the entrance to Ancells Business Park, just off Junction 4A of the M3 motorway at Fleet. The buildings are under-rented and should show growth from the current average passing rent of £16.60 psf. In addition, planning consent has been granted in the past for a further 4,736 sq ft.

Within the future development pipeline is the potential redevelopment of 30/32 Lombard Street, EC2, where planning consent was granted in October 2007 for a top quality 58,000 sq ft office scheme on this prime City location. In addition to completed and vacant stock in the City there is a large supply of new buildings due to come to the market over the next two years at a time of questionable demand from financial institutions and related parties, which has already put downward pressure on rents. Current market conditions in the City for this type of scheme are therefore not favourable and income will be maintained until circumstances change.

The expiry of leases at Access House, Newbury (17,040 sq ft), Castle Lane, SW1 (14,180 sq ft), and Portsoken House, EC3 (47,000 sq ft) over the next nine months will provide the opportunity to refurbish a number of floors. The most significant in terms of capital commitment is Portsoken House, where general improvement works will upgrade the floor space to improve on passing rents in the region of £22 psf.

<u>Finance</u>

As at 31st March 2008, the Group's net debt was £123.28 million (2007 - £110.77 million) representing 66.0% of shareholders' funds (2007 – 46.9%). The increased level of debt was due primarily to acquisitions and capital expenditure incurred mainly in the refurbishment of Lotus Park, Staines and Corinthian House, Croydon. After taking into account sales of £13.50 million (2007 - £22.57 million), the net investment in the portfolio for the year was £8.60 million (2007 - £0.94 million).

The opportunity was taken in the Autumn to increase the size of four of the Group's bank facilities. Despite the difficulties faced by the banking sector at the time, this was completed with existing lenders at the same or improved margins. As a result, total bank facilities available to the Group increased by £35 million to £185 million at the year end, and the average weighted unexpired term to maturity increased to 7.7 years. If fully drawn, gearing to shareholders' funds would increase to 99% (2007 – 63.6%).

The ratio of drawn debt to portfolio value at 31st March 2008 was 38.9% (2007 – 31.5%). Net cash flow from operating activities was £2.13 million (2007 - £1.88 million) and interest cover, based on adjusted profit before tax plus finance costs as a ratio to finance costs, was 2.2 (2007 – 2.0).

Following adoption of REIT status on 1st April 2007, the Group is tax exempt in respect of capital gains and all qualifying rental income which includes the majority of the Group's activities. There is no tax charge this year in respect of residual income from activities outside of the REIT regime, as the minimal income has been offset by relevant costs.

As a REIT, the Company is required to distribute at least 90% of rental income profits arising each financial year by way of a Property Income Distribution (PID), which, subject to certain exemptions, is made after deduction of withholding tax; at present 20%. Therefore all dividends must now be allocated between PIDs and non PIDs. Of the final dividend of 9.6 pence per share, 6.95 pence will be paid as a PID; after deduction of withholding tax, the net receipt per share will be 8.21 pence. The PID distribution for the full year will be 10.45 pence of the total dividend of 14.3 pence.

The main financial risks to the Group are tenant default, liquidity and interest rate movements on bank borrowings. Tenant default is monitored using Dun & Bradstreet credit checks for new tenants, together with ongoing credit checks and strict internal credit control. This, together with close management of rental income and suppliers, ensures the Group's ability to generate income to meet its commitments. Liquidity risk is managed through a mixture of short and long term committed facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows. Protection against interest rate risk is provided by financial hedging instruments. At the year end £140 million (2007 - £110 million) was protected by such instruments with maturities ranging between 2015 and 2032; if bank borrowing facilities were fully drawn, cover would be 75.7% (2007 – 73.3%). The increase in hedging instruments was considered prudent, especially during such uncertain times in the financial markets, and has contributed to the Group's low weighted average cost of borrowing for the year of 5.4% (2007 – 5.8%). The Group does not hedge account its interest rate derivatives and therefore includes the movement in fair value in the Income Statement.

S.C. Perkins
A.S. Childs
6th June 2008

The summary of the consolidated results of McKay Securities PLC and its subsidiary undertakings (the "Group") for the year ending 31st March 2008 are as follows:

GROUP INCOME STATEMENT
For the year ended 31st March 2008

	Notes	2008 £'000	2007 £'000
Gross rents and service charges receivable	2	**22,948**	20,295
Surrender premiums received		**-**	101
		22,948	20,396
Direct property outgoings		**(4,523)**	(3,917)
Net rental income from investment properties	2	**18,425**	16,479
Administration costs		**(3,366)**	(4,008)
Operating profit before gains on investment properties		**15,059**	12,471
Profit on disposal of investment properties		**312**	3,592
Movement on revaluation of investment properties	7	**(45,615)**	41,967
Operating (loss)/profit		**(30,244)**	58,030
Net finance costs - finance costs	4	**(12,346)**	(1,218)
- finance income	4	**86**	116
		(12,260)	(1,102)
Share of results of associated undertaking		**(901)**	527
(Loss)/Profit before taxation		**(43,405)**	57,455
Taxation – credit/(charge) for the year	5	**13**	(15,445)
- REIT conversion	5	**-**	32,164
		13	16,719
(Loss)/Profit for the year		**(43,392)**	74,174
Earnings per share	6		
Basic		**(94.76)p**	162.26p
Diluted		**(94.76)p**	160.28p

Adjusted earnings per share figures are shown in note 6.

Dividends		
Previous year's final dividend of 7.4p (2006 – 6.8p) paid during the year	**3,389**	3,101
Interim dividend of 4.7p (2007 – 3.6p) paid during the year	**2,152**	1,648
Proposed final dividend of 9.6p (2007 – 7.4p)	**4,396**	3,389

STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the year ended 31st March 2008

	2008 Group £'000	**2008 Company £'000**
Actuarial movement on defined benefit pension scheme	**(453)**	**(453)**
Net income recognised directly in equity	**(453)**	**(453)**
Loss for the year	**(43,392)**	**(38,071)**
Total recognised income and expense for the year	**(43,845)**	**(38,524)**

	2007 Group £'000	2007 Company £'000
Actuarial movement on defined benefit pension scheme	202	202
Net income recognised directly in equity	202	202
Profit for the year	74,174	86,129
Total recognised income and expense for the year	74,376	86,331

GROUP BALANCE SHEET
At 31st March 2008

--	Notes	**2008** **£'000**	2007 £'000
Non-current assets			
Investment properties		**314,740**	351,110
Plant and equipment		**51**	48
Investments		**5,056**	6,092
		319,847	357,250
Current assets			
Trade and other receivables	8	**8,448**	9,571
Cash and cash equivalents		**5,113**	703
		13,561	10,274
Total assets		**333,408**	367,524
Current liabilities			
Corporation tax payable		**(3,468)**	(8,646)
Trade and other payables	9	**(10,244)**	(6,990)
		(13,712)	(15,636)
Non-current liabilities			
Loans and other borrowings		**(127,816)**	(111,139)
Pension fund liabilities		**(567)**	(332)
Finance lease liabilities		**(4,410)**	(4,427)
		(132,793)	(115,898)
Total liabilities		**(146,505)**	(131,534)
Net assets		**186,903**	235,990
Equity			
Called up share capital		**9,159**	9,159
Share premium account		**2,495**	2,495
Capital reserves		**56,326**	49,147
Revaluation reserve		**84,047**	137,646
Retained earnings		**34,876**	37,543
Total Equity		**186,903**	235,990
Net asset value per share	10	**408p**	515p
Adjusted net asset value per share	10	**411p**	506p

GROUP CASH FLOW STATEMENT
For the year ended 31st March 2008

	2008 £'000	2007 £'000
Operating activities		
(Loss)/profit before tax	**(43,405)**	57,455
Adjustments for:		
Depreciation	**46**	44
Other non-cash movements	**557**	340
Profit on disposals of investment properties	**(312)**	(3,592)
Movement in revaluation of investment properties	**45,615**	(41,967)
Net finance costs	**12,260**	1,102
Share of loss/(profit) of associate undertaking	**901**	(527)
Cash flow from operations before changes in working Capital	**15,662**	12,855
Increase in debtors	**(1,928)**	(1,398)
Increase/(decrease) in creditors	**574**	(1,438)
Cash generated from operations	**14,308**	10,019
Interest paid	**(7,361)**	(6,375)
Interest received	**102**	99
Corporation tax paid	**(4,919)**	(1,863)
Cash flows from operating activities	**2,130**	1,880
Investing activities		
Sale of investment properties	**13,494**	22,572
Dividends from sundry investments	**2**	1
Dividends from associated undertaking	**135**	135
Purchase and development of investment properties	**(22,254)**	(22,818)
Purchase of other fixed assets	**(50)**	(19)
Cash flows from investing activities	**(8,673)**	(129)
Financing activities		
Proceeds from issue of share capital	**-**	324
Increase in borrowings	**16,494**	1,539
Equity dividends paid	**(5,541)**	(4,749)
Cash flows from financing activities	**10,953**	(2,886)
Net increase/(decrease) in cash and cash equivalents	**4,410**	(1,135)
Cash and cash equivalents at the beginning of the year	**703**	1,838
Cash and cash equivalents at the end of the year	**5,113**	703

Notes forming part of the Group financial statements

1. The financial information set out in the preliminary announcement does not constitute the Group's statutory accounts for the year ended 31st March 2008 or 31st March 2007. The statutory accounts for the period ended 31st March 2008 have been audited and will be delivered to the Registrar for Companies following the Company's Annual General Meeting. The financial information for the year ended 31st March 2007 has been derived from the statutory accounts for the year ended 31st March 2007 and has been delivered to the Registrar of Companies. The auditors have reported on the accounts for the period ended 31st March 2007; their report was unqualified and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2. **Net rental income from investment properties**

	2008	2007
	£'000	£'000
Gross rents receivable	**17,783**	15,724
SIC 15 adjustment	**1,568**	1,583
	---------	---------
Gross rental income	**19,351**	17,307
Service charges receivable	**3,597**	2,988
	---------	---------
	22,948	20,295
Surrender premium received	**-**	101
Direct property outgoings	**(4,523)**	(3,917)
	---------	---------
	18,425	16,479
	---------	---------

The Group engages in only one class of business activity, being property investment and development.

Rent receivable under the terms of the leases is adjusted, in accordance with SIC 15, for the effect of any incentives given.

3. **Adjusted profit before tax**

Adjusted profit before tax is the Group's preferred measure to provide a clearer picture of recurring profits from core rental activities before tax, adjusted as set out below.

	2008	2007
	£'000	£'000
(Loss)/profit before tax	**(43,405)**	57,455
Surrender premium received	**-**	(101)
Change in fair value of derivatives	**5,381**	(4,206)
Movement in revaluation of investment properties	**45,615**	(41,967)
Profit on disposal of investment properties	**(312)**	(3,592)
Associated undertaking disposals and revaluation movement	**1,102**	(369)
	---------	----------
Adjusted profit before tax	**8,381**	7,220
	---------	----------

4. Net finance costs

	2008 £'000	2007 £'000
Interest on bank overdraft and loans	**6,739**	5,943
Finance lease interest on leasehold property obligations	**285**	287
Finance arrangement costs	**183**	41
	7,207	6,271
Capitalised interest	**(242)**	(847)
	6,965	5,424
Fair value losses/(gains) on derivatives	**5,381**	(4,206)
	12,346	1,218
Interest receivable	**(86)**	(116)
	12,260	1,102

5. Taxation

	2008 £'000	2007 £'000
Analysis of charge in period:		
Current tax:		
UK corporation tax on profits for the period	**-**	3,344
Adjustments in respect of prior periods	**(13)**	(380)
	(13)	2,964
Deferred tax:		
Origination and reversal of temporary differences	**-**	1,984
On property valuation surpluses	**-**	12,590
Released on property disposals during the year	**-**	(2,093)
	-	12,481
	(13)	15,445
REIT conversion charge	**-**	7,025
Deferred tax released on conversion to REIT status	**-**	(39,189)
Total tax credit in the income statement	**(13)**	(16,719)
Reconciliation to effective rate of tax:		
(Loss)/profit on ordinary activities before tax	**(43,405)**	57,455
Tax (credit)/charge on profit at 30% (2007 – 30%)	**(13,021)**	17,237
Effects of:		
Exempt REIT profits and gains	**12,640**	-

REIT conversion charge	**-**	7,025
Deferred tax released on conversion to REIT status	**-**	(39,189)
Non-deductible expenses	**14**	7
Other timing differences	**72**	(42)
Associated company	**270**	(158)
Sales of investment properties	**-**	(1,219)
Other	**25**	-
Adjustment to tax charge in respect of prior years	**(13)**	(380)
	--------	--------
Tax credit for period (as above)	**(13)**	(16,719)
	--------	--------

Factors affecting future tax rate:
The current Group corporation tax payable of £3,468,000 (2007 - £8,646,000) represents the tax payable for current and prior periods and the REIT conversion charge provided, less payments made.

6. Earnings per share

	2008	2007
	p	p
Basic (loss)/earnings per share	**(94.76)**	162.26
Deferred tax on capital allowances	**-**	0.83
Surrender premium received	**-**	(0.15)
Change in fair value of derivatives	**11.75**	(9.20)
Movement in revaluation of investment properties	**99.61**	(64.27)
Profit on disposal of investment properties after taxation	**(0.68)**	(7.08)
Associated undertaking disposals and revaluation movement	**2.41**	(0.81)
REIT entry charge	**-**	15.37
Release of deferred tax provision on conversion to REIT	**-**	(82.22)
	--------	--------
Adjusted earnings per share	**18.33**	14.73
	--------	--------

Basic (loss)/earnings per share on ordinary shares are based on the loss in the year of £43,392,000 (2007 – profit: £74,174,000) and 45,792,655 (2007 – 45,711,784) shares, being the weighted average number of ordinary shares in issue during the period.

	2008 Number of shares	2007 Number of Shares
Weighted average number of ordinary shares in issue	**45,792,655**	45,711,784
Number of shares under option	**1,765,837**	1,445,442
Number of shares that would have been issued at fair value	**(1,130,701)**	(879,580)
	---------------	---------------
Diluted weighted average number of ordinary shares in issue	**46,427,791**	46,277,646
	---------------	---------------

	2008	2007
	p	p
Basic (loss)/earnings per share	**(94.76)**	162.26
Effect of dilutive potential ordinary shares under option	**-**	(1.98)
	---------	--------
Diluted (loss)/earnings per share	**(94.76)**	160.28
Effect of dilutive potential ordinary shares under option	**1.30**	-
Deferred tax on capital allowances	**-**	0.82
Surrender premiums received	**-**	(0.15)
Change in fair value of derivatives	**11.59**	(9.09)
Movement in revaluation of investment properties	**98.25**	(63.48)
Profit on disposal of investment properties after taxation	**(0.67)**	(6.99)
Associated undertaking disposals and revaluation movement	**2.37**	(0.80)
REIT entry charge	**-**	15.18
Release of deferred tax provision on conversion to a REIT	**-**	(81.22)
	--------	--------
Adjusted diluted earnings per share	**18.08**	14.55
Surrender premiums received	**-**	0.15
	-------	--------
EPRA earnings per share	**18.08**	14.70
	-------	-------

Diluted (loss)/earnings per share are based on the same (loss)/earnings after tax and on the diluted weighted average number of shares in issue during the year of 46,427,791 (2007 – 46,277,646) shares, which takes into account the number of dilutive potential ordinary shares under option. No account has been taken in diluted (loss)/earnings per share of potential ordinary shares in 2008 where their conversion to ordinary shares would decrease the loss per share but is included to arrive at adjusted diluted earnings per share.

Adjusted earnings per share excludes the after tax effect of profit from the disposal of investment properties, surrender premiums received, the change in the fair value of derivatives and the movement in revaluation of investment properties, and prior to REIT entry the deferred tax provided on capital allowances and investment properties, where no tax payment is expected to crystallise. The 2007 earnings per share is further adjusted for the write back of deferred tax provision on entry into the REIT regime less the entry charge. The EPRA measure includes all of these adjustments except for surrender premiums which are added back.

7. Investment Properties

		Group		Company
	Freehold	Long Leasehold	Total	Freehold
	£'000	£'000	£'000	£'000
Valuation				
At 1st April 2007	316,470	34,640	351,110	273,970
Additions – acquisitions	19,450	-	19,450	19,450
- development	3,028	(11)	3,017	3,028
Revaluation deficit	(42,229)	(1,818)	(44,047)	(37,409)
Adjustment for rents recognised in advance under SIC 15	(1,568)	-	(1,568)	(1,568)
Disposals	(12,374)	(808)	(13,182)	(12,374)

Amortisation of grossed up headlease Liabilities	-	(40)	(40)	-
At 31st March 2008	**282,777**	**31,963**	**314,740**	**245,097**
Adjustment for grossing up of headlease Liabilities	-	(4,067)	(4,067)	-
Adjustment for rents recognised in Advance under SIC 15	5,803	44	5,847	5,803
Adjusted valuation at 31st March 2008	**288,580**	**27,940**	**316,520**	**250,900**

	Group			Company
		Long		
	Freehold	Leasehold	Total	Freehold
	£'000	£'000	£'000	£'000
Valuation				
At 1st April 2006	274,358	30,329	304,687	235,088
Additions – acquisitions	17,454	-	17,454	17,454
- development	5,876	185	6,061	5,876
Revaluation surplus	39,345	4,206	43,551	36,115
Adjustment for rents recognised in advance under SIC 15	(1,583)	(1)	(1,584)	(1,583)
Disposals	(18,980)	-	(18,980)	(18,980)
Amortisation of grossed up headlease Liabilities	-	(79)	(79)	-
At 31st March 2007	316,470	34,640	351,110	273,970
Adjustment for grossing up of headlease liabilities	-	(4,122)	(4,122)	-
Adjustment for rents recognised in advance under SIC 15	4,235	44	4,279	4,235
Adjusted valuation at 31st March 2007	320,705	30,562	351,267	278,205

In accordance with the Group's accounting policy on properties there was an external valuation at 31st March 2008. This valuation was carried out in England by Mellersh and Harding, Chartered Surveyors and Valuers, and in Scotland (100 Bothwell Street, Glasgow) by CB Richard Ellis, Chartered Surveyors and Valuers, in accordance with the Appraisal and Valuation Standards of RICS, on an open market basis.

The historical cost of properties stated at valuation is approximately £224 million (2007 - £208 million) for the Group and £181 million (2007 - £164 million) for the Company.

8. Trade and other receivables

	2008		2007	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade receivables	**27**	**7**	8	6
Amounts due from subsidiary undertakings	**-**	**21,816**	-	21,884
SIC 15 lease incentives	**5,847**	**5,803**	4,279	4,235
Interest rate derivatives	**792**	**792**	4,228	4,228
Other debtors and prepayments	**1,782**	**1,433**	1,056	577
	8,448	**29,851**	9,571	30,930

All the above debtors are receivable within one year except for lease incentives of £5,393,000 (2007 - £3,998,000), accrued in accordance with SIC 15.

	2008	2007
Group trade receivable are split as follows:	**£'000**	£'000
Less than three months due	**4**	-
Between three and six months due	**4**	6
Between six and twelve months due	**19**	2
	27	8

9. Liabilities

	2008		2007	
	Group	**Company**	Group	Company
	£'000	**£'000**	£'000	£'000
Trade and other payables				
Rent received in advance	**4,080**	**3,156**	3,528	2,617
Other taxation and social security costs	**633**	**633**	255	255
Amounts owed to subsidiary undertakings	**-**	**7,854**	-	6,338
Interest rate derivatives	**1,945**	**1,945**	-	-
Other creditors and accruals	**3,586**	**2,695**	3,207	2,237
	10,244	**16,283**	6,990	11,447

Loans and other borrowings
The analysis of bank loans which are secured on certain of the freehold and leasehold properties of the Group is as follows:

	2008	2007
	£'000	£'000
Group and Company		
Secured bank loans repayable at stated dates between 2011 and 2017 at variable rates	**128,350**	111,490
Bank facility fees	**(534)**	(351)
	127,816	111,139

The bank loans are secured against land and buildings with a carrying amount of £270,865,000 (2007 - £289,330,000).

Repayable in:	**2008** Group £'000	**2008** Company £,000	2007 Group £'000	2007 Company £'000
Less than 1 year	**-**	**-**	-	-
1-2 years	**-**	**-**	-	-
2-5 years	**20,000**	**20,000**	20,000	20,000
5-10 years	**107,816**	**107,816**	91,139	91,139
	127,816	**127,816**	111,139	111,139

Borrowing facilities
The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent had been met were as follows:

	2008 £'000	2007 £'000
Expiring in less than 1 year	**-**	-
Expiring in 1 – 2 years	**-**	-
Expiring in 2 – 5 years	**10,000**	10,000
Expiring in 5 - 10 years	**46,650**	28,510
	56,650	38,510

Liquidity risk
Liquidity risk is managed through committed bank facilities that ensure sufficient funds are available to cover potential liabilities arising against projected cash flows. The Group's facilities are revolving, allowing the Group to apply cash surpluses to temporarily reduce debt.

Exposure to credit and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to reduce exposure to interest rate fluctuations.

Credit risk
Credit evaluations are performed on all tenants looking to enter into a lease or pre-lease agreements with the Group. In certain cases the Group will require collateral to support these lease obligations. These might be in the form of cash rental security deposits, bank rental guarantee or a parent company guarantee.

At the balance sheet date there were no significant concentrations of credit risk, except for the low risk lease commitments which were either government departments or held on top credit rating. The maximum exposure to credit risk is represented by the carrying amount of each financial asset including derivative financial instruments on the balance sheet.

The Group has no exposure to currency risks.

A 1% change in interest rate levels would increase or decrease the Group's annual profit and equity by £116,000 (2007 - £15,000). This sensitivity has been calculated by applying the interest rate charge to the variable rate borrowings, net of interest rate swap, at the year end.

Interest rate risk
The Group adopts a policy of ensuring that its exposure to interest rate fluctuations is mitigated by the use of financial instruments. Participating swaps and interest rate swaps have been entered into to achieve this purpose. The swaps mature over the next 14 years, matching the maturity of the related loans and have swap rates ranging from 3.99% to 4.97% and a collar of 3.50%. The Group does not hold or issue derivative financial instruments for trading purposes.

Swaps for Group and Company

As at 31st March 2008	Hedged amount £'000	Average rate	Average maturity - years	Fair Value £'000	Fair Value Adjustment £'000
Interest rate swaps	**125,000**	**4.63**	**8.22**	**1,586**	**(3,708)**
Interest rate caps	**15,000**	**4.97**	**7.83**	**(573)**	**(1,640)**
Interest rate floors	**15,000**	**3.50**	**7.83**	**140**	**(33)**
				1,153	**(5,381)**

As at 31st March 2007	Hedged Amount £'000	Average rate	Average maturity - years	Fair Value £'000	Fair Value Adjustment £'000
Interest rate swaps	70,000	4.60%	11.30	(2,122)	3,294
Interest rate caps	40,000	4.97%	10.47	(2,213)	741
Interest rate floors	40,000	2.98%	10.47	107	171
				(4,228)	4,206

In both 2008 and 2007 there was no difference between the book value and the fair value of all the other financial assets and liabilities of the Group and Company.

Set out below is the interest rate profile of the Group after taking into account the interest rate hedging instruments:

	2008 £'000	2007 £'000
Floating rate	**-**	1,139
Hedged	**140,000**	110,000
	140,000	111,139
Surplus hedging instruments available	**(12,056)**	-

Loans and other borrowings	**127,944**	111,139
	----------	----------
Weighted average cost of borrowing	**5.4%**	5.8%
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The Group does not hedge account its interest rate derivatives and therefore states them at fair value in the income statement.

The Group has no liabilities at maturity on the above financial instruments. The above fair values are based on quotations from the Group's banks.

There are no material unrecognised gains or losses on instruments used for hedging.

10. Net asset value per share

	2008			2007		
	Net Asset	**Shares**	**Net asset value per share**	Net Assets	Shares	Net asset Value per share
	£'000	**'000**	**p**	£'000	'000	p
Basic	**186,903**	**45,793**	**408**	235,990	45,793	515
Adjustment to fair value of derivatives	**1,153**	**-**	**3**	(4,228)	-	(9)
	-----------	**---------**	**----------**	-----------	---------	------
Adjusted	**188,056**	**45,793**	**411**	231,762	45,793	506
Number of shares under option	**3,874**	**1,875**	**(8)**	3,874	1,553	(8)
	----------	**--------**	**-----**	----------	--------	-----
Adjusted diluted and EPRA measure	**191,930**	**47,668**	**403**	235,636	47,346	498
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The EPRA net asset value per share includes external valuation surplus on investment properties but excludes the fair value adjustment for derivatives.

11. The Report and Financial Statements will be posted to Shareholders on 26th June 2008 with copies available from the Group's registered office at 20 Greyfriars Road, Reading, RG1 1NL from the same date, and from the Group's website www.mckaysecurities.plc.uk